



Lachmann on price rigidity in the real world

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| Résumé en anglais | <p>This article aims at deepening Ludwig Lachmann's intuitions on the origins and effect of price rigidity from a historical and institutional perspective. The existence of fixed prices -in the short run at least- is a salient feature of the real world that departs greatly from prices in economic textbook markets, whose fluctuation is necessary to equalize supply and demand. In modern economies, and more precisely in advanced economies, customers buy goods from places called 'stores' or 'shops', where prices are fixed in the short term, and do not react to a sudden surge in demand. In a similar fashion, individual wages are contractually fixed at a certain level and modified at regular intervals, or when employees change companies. In his 1987 book, <i>Market as an Economic Process</i>, Ludwig Lachmann departed from the classical Austrian view that short-term price stickiness is an obstacle to proper market adjustment, and acknowledged the emergence of fixprice systems of distribution as a desirable feature of modern economies, since it reduces price uncertainty and facilitates entrepreneurs' economic calculus. Lachmann claimed that changes in the capital structure - in particular the increasing prominence of durable, specific, and complementary capital equipment that characterises modern industry - went historically hand-in-hand with fixprice systems. We also argue that the allocation system is the combination of two interacting sub-systems: production and distribution. The existence of fixprice markets is a leap on the distribution side, similar as the one encouraged on the production side by Ronald Coase in 1937 in his article "The Nature of the Firm", where he introduced the concept of the firm as an alternative allocation system to the market. We therefore conclude that an enlarged theory of transaction costs, not restricted only to the production side of the allocation process, is needed to understand the existence of fixed prices.</p> |
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